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GOVERNMENT OF INDIA

MINISTRY OF FINANCE

Budget, 1950-51

Finance Minister's Speech

28th February, 1950

The Minister of Finance (Dr. John Matthai) : Sir, I rise to present the estimated Receipts and Expenditure of the Government of India for the year 1950-51. This is the first Budget of the Republic of India and, Mr. Speaker, I consider it a great honour that it has fallen to me to present it to the House.

There is one matter, Sir, which I would like to mention before I proceed any further. I have arranged for distribution to hon. Members at the end of today's sitting, not merely the Explanatory Memorandum which is usually circulated with the Budget but also a White Paper on the Budget which contains practically all the material set out in the Budget speech, in more or less the same form and somewhat amplified. For this reason, I propose to allow myself today the freedom of speaking somewhat informally on the matters covered by the Budget, instead of delivering a set address as is usually done on occasions of this kind. The House will find that the material set out in the White Paper would give hon. Members all the data which they would require for the consideration and discussion of the Budget later in the session. All that I propose to do at this stage is to give hon. Members a broad outline of the Budgetary position and the general economic background of the Budget.

This Budget is being presented under the new Constitution. From that fact there are two matters that arise to which I would like to invite the attention of the House. The first is this, that the Constitution lays down a somewhat elaborate procedure for the

consideration and discussion of the Budget. We are not following this year the procedure prescribed by the Constitution, largely for the reason that this procedure has implications which it would take the House and the Government a little time to consider, and the arrangements required for carrying out this procedure would also take a little time. But there is one rather important change which we propose to make this year. As you, Sir, announced earlier in the session, we propose to ask the House to set up an Estimates Committee to scrutinise the expenditure of each Department of Government and of the Government as a whole. Personally, I am looking forward to the work of the Estimates Committee when it is set up because I think in two directions it is going to exert a healthy influence upon the course of public expenditure. In the first place, the suggestions and criticisms which may be made by the Estimates Committee would, in my judgment, give a useful direction and guidance to the Government in the matter of regulating expenditure. Secondly, I think the knowledge that the expenditure of Government and of the various Departments of Government would be examined in detail by an independent authority set up by the House would act as a deterrent to extravagance in public expenditure.

Although it is a matter which, ultimately, has to be decided by the House, I would like to say, at this stage, that, as far as I am concerned, I would like the Standing Finance Committee to continue at the same time. There is a real distinction between the work of the Standing Finance Committee and the work of the proposed Estimates Committee. The Standing Finance Committee is concerned with specific proposals of expenditure by each Department of Government, but the Estimates Committee's business would be to make a comprehensive examination of expenditure in relation to the resources available to Government. The real business of the Estimates Committee would, therefore, be, taking the policy and the objectives of Government (with which they are not concerned), to suggest how this policy and these objectives could be carried out with the least expenditure of public resources. That, Sir, is the first matter to which I would like to refer as arising from the introduction of the Constitution.

The second matter is this. The Constitution of India envisages not merely the India of the Provinces, but also the India of the States. The estimates for the year 1950-51 which I am going to present to the House would, therefore, cover not merely the finances of the old Provinces, but would cover also the federal expenditure and the federal revenues of the integrated States. (*Hon. Members:* Hear, hear.) The result of that is that the estimates of 1950-51 would not be strictly comparable with the figures of 1949-50 or the preceding years. The House will realise that that is going to mean a break in the continuity of our Budgetary figures. The year

1947 which saw the partition meant a break in the continuity of our statistics, and the integration of the States in 1950 is going to mean a further break. Therefore, this period of 1947 to 1950, from the point of view of comparison of economic and financial trends over a continuous period of years, will be an awkward period of transition, and call for laborious work before the Budgetary figures of future years could be compared with those of past years.

That is looking at the question from the point of view of those interested in statistical comparisons. But there is, as will be obvious to the House, another way of looking at this period of transition, because this period of 1947 to 1950 will, I have not the slightest doubt, appear to the future historian of India as a dividing line between one segment of our history, of the storied past of India, from another segment of our history which is just opening out, and which as it widens and moves forward will have witnessed the fulfilment of the aspirations of the generation that strove to build the New India of our dreams.

I want at this stage to take the House back to the main economic events that occurred during the year 1949. What I want to do is to ask the House to survey the principal economic trends which were in evidence since the last Budget was presented. It has been a year of great difficulty and of great anxiety. It has been a period of almost unprecedented difficulties. There were times during the year 1949 when some of us more immediately concerned with the economic activities of Government felt a sense of almost overwhelming crisis. But on an objective examination of the facts as they stand today, I feel I am in a position to tell the House that the stage of crisis at any rate is now definitely past. I do not want to hide from the House or hide from myself that there are still difficult problems ahead of us. But I think I am justified in saying that we have now been able to take the measure of these problems and if there are problems in front of us they are problems which would not be beyond the ability of Government to meet and to solve in due course.

The first main economic problem to which I would like to refer is the problem which is compendiously referred to as 'inflation'. Inflation has many aspects to it. I want today to confine myself to that aspect of it which is reflected in the level of prices. The first thing I want the House to realise in regard to inflation is that it is a problem which is not by any means confined to this country. It is a world problem which has come to us as a legacy principally of the war. It is interesting to trace the difference between inflation as it was created by the First War and the inflation that has been generated by the Second World War. In the

first war, the position was that the war ended in 1918 and the inflationary trends created by the war continued until 1920. In 1921 a marked downward trend began.

In the case of the second war, the war ended in 1945. To-day we are in the fifth year after the termination of the war; but the inflationary process set going by the war still continues in many countries. Not merely does it continue, but in several countries it is actually on the increase. India, therefore, is finding itself entangled in a world situation many aspects of which are beyond the control of this country. What exactly are the causes that distinguish inflation as it emerged from the first war and as it has emerged from the recent war? The House will appreciate there was much larger destruction of national assets and productive capacity in the second war. There was a much larger expenditure in pursuance of the war which resulted in a larger increase in purchasing power. There was also a large redistribution of purchasing power with the result that the less well-to-do sections of the population in many countries found themselves in a position to spend more upon consumable goods than they did before and a large degree of potential inflation thereby came into existence.

Another factor which is also important, is that the end of the first war was followed by a relatively long period of lull, people feeling they have been through a war of vast proportions and another war of that kind was not likely to come again in the near future. But the end of the second war has coincided almost immediately with talks and thought of another war. Re-armament is already in the air. Stock piling has already started and increasing demand has already come into existence for basic and strategic materials. Therefore, today we are in a position much more difficult than the position created by the first war.

Taking our own country, we are necessarily affected by all these international forces. India to-day has far more points of contact with the outside world than she had at the end of the first war. We are therefore exposed to those influences that are active in the world to-day. On top of it, we have had difficult problems created by partition. We have also problems created by the fact that a large part of our expenditure during the war was met by fiduciary currency backed by foreign assets, instead of by loans and by taxes as a large part of war expenditure in other countries was met. We are therefore in a specially difficult position, and I ask the House to take that fact into account in judging the inflationary position in India to-day.

Now, I would like to briefly examine the movement of prices in 1949. As hon. Members will remember, the Government adopted

certain anti-inflationary measures towards the end of the year 1948—to the precise, in October, 1948. As the result of these anti-inflationary measures, prices slowly began to come down from October, 1948, and that steady downward trend continued until March, 1949. It was a steady downward movement. I was one of those who, having observed this steady downward movement during a period of six months, thought, and I think I said so in the House, that that movement would continue. But my expectations in that matter did not materialize. On the other hand what happened was that from April 1949 for several months thereafter the trend of prices was upward and that upward trend continued until, I think, October 1949, a few weeks after de-valuation. Then we took certain special measures for countering the possible effects of de-valuation. The result of those measures has been that although we have not been able to bring down prices, we have, at any rate, been able substantially to hold the level of prices. From October right until the end of January the level of prices remained stationary. The result, therefore is briefly this: We have considerable cause for what I may call "negative satisfaction". I frankly confess we have not very much cause for positive satisfaction. Although that is the real position, I want the House to observe certain redeeming features in the situation. Although it is perfectly true that there has been no fall in prices generally there has been since October 1948, judged by the Economic Adviser's index Number, a steady fall in prices of foodgrains from October 1948 till now. As far as the whole group of food articles is concerned, there has also been a fall, though not to the same extent. The fall in the general group of foodstuffs might have been greater but for the fact that certain articles included in the food category behaved in an erratic fashion as the result of certain special circumstances. I am referring particularly to sugar and gur. But for that, the whole group of foodgrains would have shown a more marked decline. That is one factor which I would like the House to consider as a factor that to some extent redeems the situation. The other is this. I believe India is one of the few countries in the world which attempted de-valuation in September in which there has been no rise in the general level of prices as a result of de-valuation. If you take for example, the movement of prices since September in a country like the U.K. you find that there has been a perceptible rise in prices. We, at any rate, have been able to keep our prices steady. To my mind, it is a circumstance which offers some room for satisfaction. I have brought the story right up to the end of January. Since the end of January or since the beginning of February, I regret to say there have been signs of a slow upward trend and the situation, therefore, needs very careful watching. We have not by any means reached the stage where in this matter we can afford to stand still. In connection with the rise which has started in our level of prices since

the beginning of this month, I would like to bring a particular circumstance to the notice of the House. If, Sir, you observe the trend of movements of prices in the various categories covered by our Index Number, you will find principally the recent rise in prices has been in regard to industrial raw materials.

I consider that a factor of some importance. I could probably make the point clear to the House by explaining the difference between the movement of world prices after the devaluation of sterling in 1931 and the movement of world prices after the devaluation of sterling in 1949. In 1931 when sterling was devalued, it was followed by a decline in dollar prices, the result being that prices of commodities of dollar origin in terms of sterling did not rise to the whole extent of the devaluation. What is apparently happening today is that the devaluation of sterling has, as far as America is concerned, resulted in the maintenance of the original level of the prices. Dollar prices have remained steady since September 1949 on the whole. The result is that sterling prices of industrial commodities have gone up almost to the extent of the devaluation. That has happened as regards not merely the commodities of dollar origin but by psychological reaction and directly, also in the case of industrial materials of non-dollar origin. Therefore the movement that we are witnessing today, the upward movement in the prices of industrial raw materials in our index number is really a symptom of a world movement and the controlling of that therefore is not entirely in our hands.

Next, Sir, I come to the question of production. I place production second because the crux of the problem of inflation in our country is increased production. I do not believe that the monetary factor of inflation is nearly as important in this country as it is in others. And if we want to find a solution for this problem of inflation, we could do so effectively only by increasing the quantity of goods and services available in the country. Now if you take production in 1949, I think there has been a substantial increase in various important industries—steel, cement, coal, heavy chemicals, paper and generation of electricity. There are two industries and very important industries in our country of which that particular proposition cannot be made. The first is cotton textiles and the other is jute manufactures. In both these cases the limiting factor in the matter of production is the supply of raw material, particularly as the result of the deadlock that has arisen in the trade between us and Pakistan. As regards raw cotton, I want to tell the House quite briefly what Government are doing. We have, as the House knows, definitely arranged for the import of 10 lakhs of bales of cotton. If the situation needs it, we are also prepared and we are in a position to arrange for the importation of further raw cotton. I think also active steps with promising results have been taken in the matter of increasing the indigenous

production of raw cotton. The results so far I think have been promising.

With regard to raw jute, the position is that the production of raw jute in the Indian Union has, during the past 2 years, definitely shown signs of improvement. The estimated production of jute in 1949 is 30 lakhs of bales against 20 in 1948, and we expect as the result of special efforts which are being made by double cropping, by bringing fallow land under cultivation, by the extension of cultivable lands we are expecting that the production would go up to somewhere about 50 lakhs in 1950. In the meantime, I believe there are sufficient stocks of raw jute to maintain our jute mills in production until the end of the current jute season.

With regard to production of foodgrains, I think the indications are also encouraging. The estimated production in 1949 is 43 million tons against 41 in 1948 and we have every expectation that in 1950, there would be an increase of 2·8 million tons over 1949. With regard to the availability of foodgrains, procurement is quite as important a factor as production. I think the recent figures of procurement have been satisfactory. The procurement for the eleven months of 1949 ending November is 4·2 million tons against a target of 4·6 for the whole year of twelve months. The procurement target for 1950 is a million tons above the target of 1949. The conclusion that I would come to is that although production still leaves a great deal of room for improvement, there is no cause for anxiety.

There are two important factors which have assisted this increase in production. The first is the marked improvement that has taken place in railway transport. The figures that my hon. colleague the Minister for Railways placed before the House in the Railway Budget are ample proof of the improvement that has taken place. The other factor which has helped is the improvement in the labour situation. All the figures indicate that there has been a perceptible improvement in the relations between labour and management. There have been fewer labour disputes. There has been quite a marked reduction in the number of man days lost as the result of industrial disputes. I think that is a fact that ought to give us encouragement and I want, in this connection, to pay a tribute to the great labour organisations of this country. They have grown in stature; they have gathered strength. They have developed a greater consciousness of their legitimate rights; they have developed a greater sense of self-respect. Along with that, it seems to me that they have developed also a spirit of patriotism and a sense of responsibility and of their duty to the other sections of the community, which, to my mind, justify us in looking forward with confidence to the future of Indian industry.

The third problem that I want to refer to is the situation in the money market. The conditions in the money market have a direct importance for production. The position of the short term money market has a direct reaction on current production; the position in the long term or investment market has a direct reaction upon the development and expansion of production. Practically all through the first half of 1949 the conditions in the money market, I regret to say, showed very little improvement. The position in the short term market was one of acute stringency. The position in the long term market was one of continued stagnation. It is usual to explain the stagnation in the investment market by the allegation that capital today is on strike. I have looked into this matter with some care, and I have come to the conclusion that there is no foundation for this allegation. The position of the investment market can be fully and intelligibly explained with reference to such factors as increased costs, reduced margin of profits and unstable economic and psychological conditions which, if they had prevailed in any other country, would have resulted in exactly the same situation in the investment market, it is unnecessary to resort to the somewhat far-fetched hypothesis that capital for tactical reasons is deliberately declining to utilise avenues of sale and gainful employment. It is quite unnecessary to resort to this thesis. I have made this statement with regard to capital because, having given some thought to the whole question of industrial relations in the spirit, may I say, of a detached student, I have come to the conclusion that in spite of everything that we hear about us, the relations between labour and capital in this country today are fundamentally sound. The predominant sentiment in this country today is nationalism and we are not so far removed from the successful completion of the national struggle for freedom that the country's interests could be submerged in people's minds by sectarian interests. If only Government and Parliament and the Press would avoid mishandling and misjudging one section or the other, I have not the slightest doubt in my mind that both sectors of production will continue to play the game.

I said that in the first half of 1949 conditions in the money market were unsatisfactory. There was a marked fall in bank deposits. There was also an increase in bank advances. The result was that during the first six months of 1949, the ratio of deposits to advances which is the test by which we can judge the stringency of the market,—the ratio was higher than in the preceding years. If you take a normal year in our country, in the slack season, the ratio is somewhere about 45 per cent. and in the busy season about 50; it varies between 45 and 50. In the first half of 1949 it rose above 55, an unhealthy situation. I am glad to say that since July 1949 the position has improved but it is not improvement of the kind that one would accept as wholly satis-

factory, because part of the improvement is due to the fact not that the deposits have gone up but that advances have come down, because banks are more cautious and because also of the deadlock in our trade with Pakistan. But judged by the ratio test the position is more satisfactory. That is as far as the short-term market is concerned. So far as the investment market or the long-term market is concerned, as the House knows, right from August 1946 when the great communal disturbances started in Calcutta, there was a continuous fall in industrial investments which, with occasional ups and downs, continued almost until July 1949. Since July 1949 there have been signs of revival of confidence and a restoration of what might be called normal conditions, and I cannot remember a period since August 1946 when there has been a similar period of six months when the movement of revival was kept going. I regard the situation with some confidence. It is still too early to predict a permanent recovery in the investment market. As far as I am able to judge the activity in the investment market—I am particularly thinking of the Stock Exchanges—it is still confined largely to professional operators. I am not for a moment suggesting that professional operations are unhealthy; but unless the activity of the professional operator is supplemented and corrected by the activity of the genuine investor, the investment market will not be sufficiently broad-based, will not be restored to really healthy conditions, and there is the big problem that is facing us today: what exactly we can do to bring the genuine investor back into the investment market. One of the reasons why the genuine investor is holding aloof is that he has not got the measure of confidence which would justify his putting what little he has into investment. Here again, India is by no means in a peculiar position. The result of the wider distribution of current national income which has occurred since the war in many countries of the world is having this effect that large numbers of people now are having a small margin of savings in their hands. When the amount of saving that you have is small, you want a much larger degree of security than you would if you had large amounts to save and invest. Therefore, since the large number of potential investors in this country belong to exactly the same class as you and me, it is necessary that the spirit of confidence should be fostered by every means in our power.

There is just one point in connection with investment to which I would like to refer before I turn on to other topics, and that is the question of foreign capital. I consider that foreign capital is necessary in this country, not merely for the purpose of supplementing our own resources, but for the purpose of instilling a spirit of confidence among our own investors. I would like to make just this brief proposition that any considerable assistance in the way of capital from foreign countries must hereafter be looked for not in the shape of fixed interest-bearing loans and bonds, but in the shape

of equity capital on the basis of joint participation on strict business considerations without any political strings attached to it. I consider that kind of assistance desirable from our point of view, and feasible from the point of view of the foreign investor.

The House will appreciate the change that has come over the investment market in foreign countries. The difference between the position today and the position in the 19th century is this: In the 19th century when foreign capital went out from advanced countries to undeveloped countries, they had the security born of political control. In other words, colonialism provided the necessary sense of security to the foreign investor. Today, since colonialism has disappeared, the only way in which the same sense of security could be imparted is by friendly agreement. Therefore it is necessary that we should consider providing reasonable conditions of security and fair treatment for those who are willing to take the risk of investing their money in this country. The statement that the Prime Minister made last year still represents our policy in this matter and I believe that the terms and conditions outlined in that statement ought to provide reasonable security for foreign investors.

May I in this connection also refer to the question of the Dividend Limitation Act. The House will remember that originally the Bill as it was placed before the House was intended to extend the operation of the Act until December 1950. The Select Committee of the House on a thorough examination of the position decided to advance it from December 1950 to March 1950. The question now arises whether this Act should be renewed. When I spoke on the Bill last year in this House I said that the whole position would be fully examined and unless the situation was such that the continuance of the Act was necessary Government would not extend it. We have now decided not to extend the Act for the following reasons. On account of the general fall in the level of profits the limit fixed in the Act is practically inoperative. Secondly, as an anti-inflationary measure the effect of the Act has been negligible. Thirdly, it has had a disproportionately depressing effect on the investment market. For these various reasons we have decided not to extend the Act.

The next problem I want to deal with is the balance of payments. The House is fairly familiar with the problem of balance of payments, because we have discussed it on the floor of the House several times in recent months. The main fact is that for the period July 1948 to June 1949 we had to draw from our sterling balances to the extent of £81 million, in addition to the amount provided in the agreement of 1948. The position since then has shown improvement.

In connection with this question of balance of payments there has been a great deal of criticism regarding the Open General Licence and the articles which were admitted into the country under the O.G.L. the main charge against Government being that under the Open General Licence a large quantity of goods of a purely luxury character was admitted into the country. On a careful examination of the figures I am satisfied that what can be called luxury goods amounted to not more than 1·5 to 2 per cent. of the total imports. My hon. colleague the Commerce Minister has more than once explained to the House that the reason why it has become necessary to import articles of this kind is that in the bilateral agreements that we make with other countries, these countries generally insist upon a certain proportion of their non-essential goods being imported into India. They do that for this obvious reason. We as one of the parties in an agreement have no right to say "We will export all the commodities that we want to send to your country and in return we will accept only such articles as we specify." That is not businesslike: in actual practice it is not workable. That is the attitude of the Commerce Ministry and it is perfectly valid. But I want to bring to the notice of the House a consideration which has some importance for the Finance Ministry. If we decided to confine our imports completely to essential articles, I can assure the House that the Budget of this country would become unmanageable. Because from the revenue point of view these essential articles are not particularly profitable. If, for example, you confine your imports to foodgrains and plant and machinery, foodgrains bear no duty at all, agricultural machinery bears no duty at all, industrial machinery bears a duty of 5 per cent, industrial raw materials bear relatively low rates of duty. If, therefore, I confined imports to these articles, the customs revenue would be exactly half of what it is today. We would be faced with a huge deficit which would create inflation in its turn. It is a fact which is recognized in other countries that for the sake of maintaining a reasonable level of customs revenue it is justifiable to allot a certain portion of your exchange resources for articles which bring revenue to the exchequer.

I said there has been improvement since July 1949. At the end of June 1949 our Sterling Balances stood at 820 crores. In the first week of September they declined to 776, a drop of 44 crores. Since September they continued to rise, and the latest figure that I have is 846 crores. In other words, in the course of seven and a half months there has been not merely no decline, there has been a surplus of 26 crores. During this period our dollar receipts also exceeded our dollar payments. As the House is aware, this situation is due to a number of temporary causes—the suspension of dollar licences, the late issue of import licences, and partly the loan that we have had from the International Bank. But I think

the figures of exports are sufficiently encouraging for us to hope that there has been a definite turn for the better as regards our balance of payments. As Mr. Neogy told the House the other day, the figures of exports for November and December were practically record figures.

There is one aspect of the matter, however, which the House ought to realize. The figures undoubtedly show an improvement for the time being. But there is no room for complacency. It is much too soon for us to think in this matter of resting on our oars. A balance of external payments which is based upon a drastic reduction of imports and by continued releases of our accumulated balances abroad is an unhealthy balance. A healthy balance is the sort of balance that you attain at the highest possible level of imports as well as exports. If you look at the present size of our Sterling Balances, making allowance for an adequate reserve against our currency in foreign assets, and assuming for the time being that the releases would be more or less at the average rate of the past two years, our Sterling Balances are not likely to last us more than six or seven years. Therefore, it seems to me a matter of the highest importance that we should begin to plan for an external economy which would be self-balancing. And that can be done only by a stimulation of exports. I am glad to say that the steps that have been taken recently by the Ministry of Commerce in respect of their export drive have already produced results which justify our looking forward with confidence to the future.

When you come to the question of exports again, the crux of the problem is production, more production and still more production. Whichever way you look at the economic difficulties of this country, over and over again at every turn you come up against the problem of increased production. Government naturally, therefore, attach the very highest importance to this question of increasing the level of production.

The House will remember that early in this session the President announced to the House that a Planning Commission would be set up. It is necessary to undertake a review of our existing programme of development and our existing schemes of production. The geographical and economic facts on which the present programme is based no longer hold good, the estimate of financial resources on which the existing programme is based is no longer valid, and public opinion rightly demands a different kind of approach to the whole problem of development. In view of these facts Government have decided to set up a Planning Commission as announced by the President. The composition of the Commis-

sion has been settled. The Commission will consist of the following:—

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| <i>Chairman</i> | —Pandit Jawaharlal Nehru. |
| <i>Deputy Chairman</i> | —Mr. Gulzarilal Nanda, Labour Minister in the Bombay Government. |
| <i>Members</i> | <p>—Mr. Chintaman Deshmukh, formerly Governor of the Reserve Bank and now our representative in matters of external finance.</p> <p>Mr. Gaganvihari Lal Mehta, President of the Indian Tariff Board.</p> <p>Mr. R. K. Patil, Food Commissioner of the Government of India.</p> <p>(A fourth Member whose name would be announced later.)</p> |

Mr. N. R. Pillai, the Secretary of the Cabinet, will function as the Secretary of the Commission and will be assisted, as Deputy Secretary, by Sardar Tarlok Singh, Deputy Secretary in the Finance Ministry. The terms of reference and other matters relating to the Commission will be announced in due course.

Before I leave this question of balance of payments, I want to make a brief reference to our position *vis-a-vis* Pakistan. Unfortunately, the deadlock with Pakistan over the exchange issue still continues. We have expressed our agreement to the proposal that there should be a joint discussion between the two countries. Our proposal is that that discussion should cover all matters which are relevant to the economic relations between the two countries, but so far the Pakistan Government have not seen their way to extending the scope of the conference as we have suggested. They are definitely opposed to the question of prices and the exchange ratio being brought within the purview of the discussion. As far as we are concerned, we don't think that a conference which is not able to discuss prices and the exchange ratio would serve any useful purpose. That is how the matter stands at present.

As the House knows, the admission of Pakistan as a member of the International Monetary Fund has been agreed to although the admission has not become effective yet. I presume, therefore, in the near future the International Monetary Fund will examine the question of the exchange value of the Pakistan currency. I don't want to anticipate the opinion of the International Monetary Fund, but I think I must make a few relevant facts clear. Firstly, that if Pakistan has an overall favourable balance, which from the figures I have seen I doubt, that favourable balance is due entirely to her favourable balance with India. Secondly, this favourable balance with India is due to a very large extent to the

open door policy in trade matters which we had adopted towards Pakistan and the restrictive policy adopted by Pakistan towards India. Thirdly, from such facts as have come to my notice, Pakistan has recently been running a deficit both on her sterling and on her dollar accounts. In view of this, it seems to me an anomaly that Pakistan could remain in the sterling area and yet decline to de-value her currency as a means of rectifying her adverse balance like every other member of the sterling area. Lastly, whatever rate may be agreed to by the International Monetary Fund for the Pakistan currency, it will not, in practice, result in a normal restoration of trade between India and Pakistan unless that rate fits the facts of the economic situation. (*Hon. Members: Hear, hear.*)

Now, generally to sum up the economic position, let me repeat that although the position is still replete with dangers and calls for the utmost care and watchfulness, there is, in my opinion, no cause whatever for pessimism. Government have been strongly and widely criticised for the way in which they have handled the economic situation. I do not, for a moment, complain of this criticism. On the other hand, I welcome it and I welcome it for two reasons. First of all, I think it has had a very stimulating effect on members of Government. All of us are the better for this criticism. Secondly, I think it has done a great deal of good to the people who make the criticism. My own observation of democratic Governments is that it is the great advantage of a political democracy that, under it, the Government provides a target for all the criticism and fire going in the country; it provides a very useful and essential outlet for the suppressed emotions of people which, but for this outlet, might some day burst and break up society—Mr. Speaker, even they serve whose business is just to get shot.

Sir, I now turn to the revenue and expenditure of Government. As regards the current year, 1949-50, Members will remember that last year I estimated a total revenue of about Rs. 323 crores and a total expenditure of Rs. 322½ crores, leaving a small surplus of about Rs. 49 lakhs. The revised estimates now show a total revenue of a little over Rs. 332 crores and a total expenditure of a little over Rs. 336 crores, thus converting the token surplus of Rs. 49 lakhs into a deficit of Rs. 3·74 crores. May I say, in passing, that there was a time, in the course of the year, when I expected to be faced with a deficit of much bigger dimensions? Therefore, this small deficit of Rs. 3·74 crores, I regard with a sense of relief. (*Shri Hossain Imam: We all do.*)

There are various minor changes both on the side of receipts and on the side of expenditure which cancel out. The outstanding fact is this: defence expenditure during the current year went up

from the estimated figure of over Rs. 157 crores to about Rs. 170 crores—an increase of about Rs. 12½ crores. Against that customs revenue went up by about Rs. 9 crores. The difference between the increase in the defence expenditure and the increase in customs revenue gives exactly the measure of the deficit. The increase in defence expenditure, the House will appreciate, was due to inevitable circumstances. When I put my estimates before the House last year I made it clear that my estimates were based on the assumption that the 'Cease Fire Agreement' would lead to a peaceful solution of the Kashmir problem. That anticipation did not materialise and we did not think it right or safe in the interests of the country not to make the necessary provision.

As regards the customs revenue, the increase is largely due to the fact that we had a very liberal import policy working over the greater part of the year and also we have had some extra receipts from export duties levied since devaluation.

I will now come to the estimates for 1950-51. I want the House again to appreciate that the figures for 1950-51 are not strictly comparable with the figures of 1949-50, because the finances of the States come into the picture. The position regarding financial arrangements between the Union and the States is this. We appointed a Committee to go into the whole question of the financial arrangements necessary on account of the integration of the States. Mr. V. T. Krishnamachari presided over that Committee which did very valuable work. Government have, with slight modifications, accepted the recommendations of this Committee.

I will briefly summarise the recommendations. They boil down to this that the integrated States, acceding States, would be placed on exactly the same footing as the old provinces, the Centre having responsibility for Federal Subjects and Services and the Centre also taking over the Federal assets and liabilities. In several cases where what was once a single composite Government is broken up in this way on a functional basis, serious financial dislocation results. In such cases what we have agreed to do is that the whole difference between the Federal revenues which the States have surrendered and the Federal expenditure which the States have been saved, would be re-imbursed to the States. This arrangement is to last for a transitional period of ten years. During the first five years of this ten-year period the re-imbursement will be made in full—the whole of the difference between Federal revenue and Federal expenditure. During the next five years re-imbursement would be on a diminishing scale. At the end of this ten-year period the whole matter would be subject to further review. But it is our expectation that the States would be able so to adjust their financial resources that there would be little demand on the Centre.

With regard to States which are not likely to suffer any financial dislocation, that is, States which are able under the financial integration programme to make a surplus, will be allowed to retain the surplus. The Privy Purse of the original rulers would come out of this surplus. Those States would however be allowed to retain their share of the divisible pool of the income-tax. Now this is with regard to the integrating States—both the continuing States and the Unions. With regard to States which have been merged into the Provinces, the Krishnamachari Committee did not go specifically into that question; but they had dealt with the individual case of Baroda. What they said with regard to Baroda was that the principle which they had proposed in regard to acceding States should be adopted also in regard to Baroda merged in the Bombay Province, the re-imbursement being made to the Province into which the State is merged. That suggestion they made with regard to Baroda and we have accepted that and we have extended it to all Provinces into which States have been merged.

As regards States which have been constituted into Chief Commissionerships, the House realises, the problem does not arise because we are responsible for federal and for provincial expenditure.

At the existing level of taxation, the total revenue for 1950-51 is estimated at Rs. 347·5 crores, and the total expenditure at Rs. 337·88 crores, leaving a surplus of 9·62 crores. On the revenue side the principal changes are: Customs show a drop of very nearly 14 crores, due to our present policy of strict limitation of imports. Income-tax shows an increase of nearly 35 crores which is due to three factors. First of all it allows for the income-tax derived from the integrated States. Then there is the larger receipts that we expect by a prompter collection on current assessments and by better recoveries of arrears. Lastly, a considerable part of it represents the advanced payments made under section 18A of the Income Tax Act which have been taken to revenue instead of deposit, maintaining the accounting change which was made two years ago and which we expect to complete in 1951-52.

On the expenditure side, in 1949-50 the revised figures of defence expenditure show an expenditure of Rs. 170 crores. We are providing for 1950-51 an expenditure of 168 crores for Defence. This sum of Rs. 168 crores includes Rs. 8 crores for the pay, allowances and maintenance of the Indian State Forces which were taken over under the integration scheme. The intention is to bring up the training, equipment and establishment of the State forces to the same standard as the rest of the Indian Army, and my hon. colleague the Defence Minister expects that these forces will, after the training, be indistinguishable from the regular Indian Army in efficiency and in fighting spirit. Defence represents 50 per cent. of the expenditure which is a high ratio; but in view of the present

circumstances I want to make a qualification to these estimates similar to the qualification I made with regard to the estimates of last year. These estimates are based on the assumption that no abnormal developments will occur.

Our policy, as the Prime Minister has declared more than once, is to contribute in every way we can to the maintenance of peace and to the employment of peaceful methods in the settlement of international disputes. As anybody who knows the Prime Minister will appreciate that declaration has been made from the highest of motives and with the completest sincerity of purpose. If, however, contrary to our expectation events so develop that the peace and security of this country are endangered, Government will have no hesitation in raising whatever finance may be required for meeting the situation. Government will not hesitate to call upon the people to make whatever sacrifices may be necessary for safeguarding the vital interests of the country.

Now I come to the estimates of Civil expenditure. The Civil expenditure estimate for 1950-51 is 169·87 crores against 166·04 the revised estimate of 1949-50, showing an increase of 3·83 crores. Hon. Members will straightaway ask: "Is this what your much boosted economy campaign has led to?" May I stop for a moment and offer a word of explanation, because, I think, it is important that the House must know the real position?

This figure of 169·87 includes expenditure under the following items:

Administration of States taken over as Chief Commissionerships;

Administration of Central subjects in States and Unions, under the integration scheme;

Privy purses of Indian rulers with whom we have made solemn agreements; and

Grants by the Centre under the financial integration scheme.

These four items of expenditure aggregate to 26·18 crores. Deducting that you get a figure of 143·69 which is the comparable figure with 166·04 in 1949-50, a reduction of 22·35 crores. I would like to give the House another breakdown of this total of 169 crores. It includes such special items as these:

Relief of displaced persons;

Food subsidies and bonuses on production of food;

Expenses of the coming elections;

Pre-partition payments due to our own people.

These amount to 30·34 crores which would leave a balance of 139·53. Now taking this balance of 139·53, it includes expenditure on tax collection. My experience is the more you spend on

tax collection, the more you get in return, a good deal more. Therefore it is a good investment. Another item is interest charges, pensions, and debt redemption charges amounting to very nearly 44 crores. You cannot touch a pie of it. Then there are the grants in aid both to the States and Provinces. Then there is expenditure on various nation-building activities, scientific services, agriculture, medical, health and so on.

After allowing for these various items of expenditure we are left ultimately with a balance of 36·59 crores and I suggest very respectfully to the House that the field of expenditure to which economy cuts are properly applicable is denoted by this figure. I am not for a moment suggesting that economy even to this extent is to be despised. It is my intention to watch the course of public expenditure in the coming year with the closest possible care. A Finance Minister who does not do it is not worth his salt and I trust I shall have the fullest confidence of the House and of the Estimates Committee which the House will appoint in this essential but somewhat thankless job.

The estimated surplus is, as I told the House, 9·62 crores. I will explain later how I propose to deal with it.

Now I come to the capital budget. The figures for capital expenditure, meaning thereby development expenditure by the Centre, loans to States for long-term expenditure, expenditure from depreciation and Reserve Funds, stand like this:

For 1949/50 the budget estimate was 203 crores.

Revised figure for 1949/50 is 155 crores.

Budget figure for 1950/51 is 133 crores.

I will now take the capital receipts, meaning by that revenue taken to reserve, borrowing in the market, small savings and foreign loans (foreign loans in this case are loans from the International Bank). The figures are—

Budget for 1949/50.....140 crores.

Revised figure for 1949/50.....101 crores.

Budget figure for 1950/51.....148 crores.

As regards the more important of these receipts *viz.*, loans from the market, the House will remember that we were able to raise only 40 crores in 1949/50 against our estimate of 85 crores. From small savings I expected 37½ crores while it yielded only 26. But in view of the signs of improvement that are visible, I am estimating 75 crores for 1950/51 from market borrowings and 28 crores from small savings.

Apart from capital expenditure, we have other non-recurring expenditure to meet. There is the redemption of our permanent debt like the 2½ per cent. loans of 1950 we are going to pay. Also the outstanding on the 4½ per cent. loan of 1950/55. We have also to pay the first instalment of our dues to the World Bank this year and there are certain Railway Annuities falling due. Altogether the discharge of permanent debt would mean about Rs. 48 crores. Taking all our non-recurring receipts and expenditure *i.e.*, those outside the revenue budget, the deficit figures stand as follows:—

In 1949/50 budget we estimated a deficit on capital account of 134 crores. The revised estimate shows a deficit of Rs. 120 crores. For 1950/51 I estimate a deficit of Rs. 24 crores. Taking all Government transactions and allowing for them, our Cash Balances position would be as follows:—

At the end of 1949/50 I expect our cash balances will stand approximately at Rs. 95 against a figure of Rs. 58 which I estimated in my budget last year. At the end of 1950/51 I expect the balances would stand at Rs. 78 crores.

Now, Sir, I turn to the taxation proposals. I have no proposals to make for any increase in the taxes either indirect or direct. As regards indirect taxation a few weeks ago by executive order we reduced the excise duty on cotton piece-goods on super-fine from 25 per cent. to 20 per cent. and on fine from 6½ per cent. to 5 per cent. These reductions have been taken into account into the budget and I propose to incorporate them in the Finance Bill. Although it is not really a taxation measure, I want to invite the attention of the House to the fact that the Budget estimates provide for an expenditure of Rs 1½ crores for subsidising imported cotton used for the manufacture of yarn for the benefit of the handloom weavers.

With regard to postal and telegraph charges, our proposals are these. In accordance with the practice in other countries, it is proposed to introduce concessional rates in respect of local deliveries. For letters, for the first tola, it is proposed to reduce the rate from two annas to one anna. For every subsequent tola, the existing rate of one anna will remain unchanged. For local deliveries, the rate for post-cards would be reduced from nine pies to six pies. May I say in passing that Government intend that these concessions should not by any means be confined to urban areas, but by a liberal interpretation of the rules relating to local deliveries and by extension of sorting offices, this would be extended as much as possible to rural areas. With regard to telegrams, the proposals are that the basic minimum charge for an ordinary telegram should be reduced from nine annas to eight annas. The basic minimum charge for express telegrams will be reduced from Rs. 1-2-0 to

Re. 1. With regard to telephone rates, the maximum trunk call rate for a three-minute call will be reduced from Rs. 16 to Rs. 12; for a six-minute call from Rs. 32 to Rs. 24. It is proposed also to extend slightly the periods for which calls can be made at concessional rates. My hon. colleague the Minister for Communications expects, and rightly, that with these concessional rates, traffic will more than correspondingly increase. May I say we can trust my hon. colleague the Minister for Communications to see that the traffic increases according to schedule.

With regard to direct taxation, our proposals are the following. First, the Business Profits Tax to be abolished. This was introduced three years ago as a temporary measure of taxation to replace the Excess Profits Tax. With the present greatly reduced levels of profit, this tax is bearing hardly upon industrial concerns. It bears more directly upon equity capital, capital which bears the risk rather than the fixed interest bearing capital. The receipts from the Business Profits Tax have been steadily falling. We are today three years after it was imposed and there is no justification for maintaining this Tax. Secondly, with regard to Income-tax, I have three proposals to make. The maximum rate of Income-tax to be reduced from five annas to four annas. The rate applicable to the slab 10,000 to 15,000 to be reduced from three and a half annas to three annas. As regards the slabs below this, last year, I made some changes, the result of which in conjunction with the relief on earned income applicable to Income-tax, slabs below Rs. 10,000 today bear a percentage rate which is lower than the rates in force in 1939-40. My third proposal in regard to Income-tax is that the exemption limit for an undivided family, which was raised from Rs. 3,000 to Rs. 5,000 last year, should be raised to Rs. 6,000. With regard to the Corporation Tax, I propose that the Corporation Tax should be increased from two annas to two and a half annas. But, the net result is that in conjunction with the reduction in the maximum Income-tax rate, the total company rate of taxation will be reduced from seven to six and a half annas. As regards Super Tax, there are two proposals. It is proposed to abolish the distinction between earned and unearned income and to levy a uniform rate on both. This distinction in the matter of Super Tax is not recognised in any other country as far as I know and the administrative difficulties in applying it have been enormous.

The second proposal is that the maximum super-tax rate will be reduced from nine annas in the case of earned income and ten annas in the case of unearned income to a uniform rate of eight and a half annas for both earned and unearned income and will be applicable to incomes above 1½ lakhs of rupees. The super-tax rates applicable to slabs below the highest will in the descending

order be eight annas, seven and a half annas, seven annas, six annas, four annas and three annas. The maximum rate of personal taxation in the country will therefore be twelve and a half annas or about 78 per cent. The total amount of revenue involved in this tax reduction is about Rs. 15 crores, of which the Centre will bear about 8 crores and the States about 7 crores leaving a final surplus of Rs. 1.31 crores for 1950-51. The share of the States in the divisible pool will not, however, be affected as compared with the budget estimates of 1949-50. In the budget estimates of 1949-50 the provinces' share of the divisible pool of income-tax was 40.45 crores. On the revised figures for 1949-50 their share will be 45.74 crores. Allowing for all these tax reliefs, the budget for 1950-51 provides a share of a little over 43 crores for the States. I may point out that with regard to the integrated States, in many cases where the difference between Federal revenue and Federal expenditure is reimbursed to the States, their share of the divisible pool of income-tax will be set off against this grant so that practically the whole of this will be available to the other provinces. The Deshmukh Award will apply from the 1st April until the Finance Commission has reported, and it is the intention of Government to set up the Finance Commission at the earliest possible date.

There are two general considerations which I wish to mention with regard to these taxation proposals. I have for some time held the view that the present level of taxation in this country is uneconomic in the sense that the economy of the country cannot bear it. I know there is a considerable body of academic economic opinion in the country which holds a different view, but I am perfectly clear in my own mind that the effect of the present level of taxation is not disinflationary but positively inflationary, because, if you take the line that the solution to the problem of inflation is production, then a very high level of taxation which reduces the margin of saving and the amount available for investment is a potential inflationary force.

There is another general consideration that I want to mention. It is a matter of regret to me that I have had to make these adjustments in taxation within the existing framework of our tax structure. I should have preferred to make these adjustments on the basis of a more fundamental revision of our tax structure, but I have refrained from doing so because we are still in the middle of a very difficult period of transition and our receipts and our expenditure are still in such a very fluid state that no responsible person could undertake a drastic revision of the tax structure at this stage. Also we do not have sufficient data on which we could make a scientific revision of the present position. It is for that purpose that Government have set up a Committee to inquire into the whole question of national income and its distribution. That Committee which is composed of three of the most

distinguished economists and statisticians of this country together with three foreign advisers equally distinguished, I expect, will be able to give us a report by the end of 1950 on the basis of which, I hope, Government would be able to make some satisfactory proposals regarding our taxation system.

Sir, this is all that I have to say in regard to budgetary matters. I must apologise for having detained the House so long. In so drawing on their time and patience my excuse is that this is a budget presented at a very important time in India's history. I may be pardoned for dealing at some length with some aspects of our general economic and financial position.

Sir, I must apologise also for the unconventional character of my speech. There my excuse is that I have always held that a Government Budget in the last analysis is a human document in the sense that it involves and has reactions upon the experiences and the emotions of multitudes of men and women all over the country. I think therefore it is appropriate that its presentation to the people's representatives in Parliament should be somewhat less impersonal than has been customary with us hitherto.

Mr. Speaker in conclusion may I thank you again and the House for the indulgence you have shown me tonight.

